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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th January 1981

The exchanges served up more of the same fare today. The dollar forged further ahead on indications of imminent decontrol of domestic oil together with Volcker's renewed resolve to maintain high interest rates in order to achieve policy objectives. Sterling was once more fairly inactive but some solid demand this morning and again late in the day ensured fresh gains across the board. Both currencies set new benchmark levels on the Continent and the pound passed a major milestone when it purchased five deutschemark for the first time since the dark days of March 1976. Sterling's ERI closed at a record 81.6.

The pound closed at 2.4080 in New York yesterday, weakening in response to a firmer dollar. This morning, with the dollar better still, sterling opened at 2.4072 but quickly traded up through 2.41 as a large buying order was placed through the Iron Curtain. Thereafter it quickly settled into a trading range around 2.4075 which prevailed through much of the morning. As the dollar strengthened, however, sterling eased back, touching 2.4035 at the dollar's peak early this afternoon. An idle session followed but a late rush of transatlantic enthusiasm swept sterling up to a closing level of 2.4117. Sterling's three-month forward premium narrowed slightly to 4½% p.a. Euro-dollars opened firmer but lost all and more of their gains this afternoon as Federal Funds eased. Sterling commanded a negligible intrinsic premium at the close.

The pound gained ½% in Switzerland (4.53½) and Germany (5.01½) and ¾% in France (11.57). These were the highest levels for some five or six years. In Italy the pound bought a record 2383 lire. Against the dollar, the deutschemark was 2.0785 (after 2.0865) and the Swiss franc 1.8787 (after 1.8857). The deutschemark was at its weakest point for 2½ years. Yesterday the Federal Reserve sold \$35mn. for deutschemark. Today the Bundesbank sold \$80mn. for American account. EMS finished 2½% wide between the French (4.7970) and Belgian (33.35) francs. The Belgians sold \$20mn.-worth of French francs, the French bought \$6mn.-worth of Belgian francs and \$42mn.-worth of deutschemark and the Germans sold French francs equivalent to \$20mn. Elsewhere the massive drain on Swedish reserves continued with expenditure today of \$192mn. The yen closed at 203.40 in Tokyo and 203.57 in London.

Gold remained very weak around yesterday's closing levels. Numerous attempts to spark a rally were aborted. The fixings set levels of \$524.50 and \$523.50.

Operations:	Market	+	\$15mn.
	British Air	+	50
	(PSB G'teed.)		
	Interest	+	10
	Germany	+	8
	India	+	5
	Crown Agents	+	5
	Sundries	-	2
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		+	\$91mn.
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